



Arizona State Retirement System

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Update **ASRS Modified DROP Program**

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Since state legislation was passed in 2001 and modified in 2003 allowing for the creation of a Deferred Retirement Option Plan, the ASRS has been studying methods to responsibly implement the unique program.

The very nature of the program, however, would result in increased contribution rates for all members and employer partners if it were to be implemented. As a result of the extensive review and ensuing contribution rate increase, the ASRS will pursue legislation this coming session to repeal the ASRS Modified DROP statutes, and will not be offering the program.

The ASRS currently has no members participating in a Modified DROP program.

"DROP programs in general come with a cost, in many cases significant costs, which have been taxing on public retirement programs throughout the country," ASRS Director Paul Matson said. "We have studied this issue carefully and thoroughly and have concluded that it is not in the best interest of our plan to implement such a program."

Under the ASRS Modified DROP statutes, employees who reach normal retirement criteria could enter into a contract to work up to 36 months and then retire. During that time, neither the employee nor the employer would make regular contributions to the ASRS. Instead, the employee and the employer would have an agreement to defer contributions into a special account. At the end of the Modified DROP time-frame, the employee would then use those funds to purchase as much service credit – up to 36 months – as they had worked. The Modified DROP statutes called for the ASRS to then grant matching credited service. This double accumulation of credited service would result in an increased pension benefit for the individual participant, and an unfunded liability to the ASRS fund.

The significant expense to the ASRS comes from granting matching credited service, creating an unfunded liability that would have to be made up by the membership at large through higher contribution rates.

"Our fiduciary responsibility lies with our overall membership and the ASRS Defined Benefit Plan, the mainstay of our benefits package," Mr. Matson noted.

Among the benefits currently offered through the ASRS is a partial lump-sum payment at retirement. Under this benefit, a member may take up to 36 months of their monthly benefit in one check, an option that provides financial flexibility for retirees should they wish.

The ASRS continues to study the implementation of a Supplemental Retirement Savings Plan for members. An SRSP offers a mechanism for members to invest in a tax-deferred retirement account that's separate from the ASRS Defined Benefit Plan. Such a program would not constitute a burden on the ASRS and does not appear to have any significant cost or liability. An SRSP program could be ready to roll out within the next year.

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